Long-Term Care Task Force
Briefing Paper

Issue: Adequacy of Personal Savings/Assets

Description: Older individuals and individuals with disabilities face the risk of needing long-term care services in addition to acute care needs and prescription drugs. Many will rely on unpaid caregivers or privately financed care for long-term care. Some will also need expensive institutional care at some point in their life. Determining the adequacy of personal savings/assets for individuals who may need long-term care would help answer the question of how long older adults and individuals with disabilities can rely on unpaid or private financing sources to pay for their care. The lifetime LTC needs of younger individuals with disabilities and the elderly population must be considered separately because their need for LTC often varies due to age and type of disability.

Background:

Determining "adequacy" of personal savings would hinge on a number of factors:

- Estimated need for LTC services (how many people and how much care)
- Estimated cost for services
- Personal savings/assets individual likely to need care
- Amount of personal spending for health and long term care
- Amount of personal spending for government programs (spenddowners)

Projections indicate that individuals turning age 65 can expect to need long-term care services (in any setting, formal and informal) on average for about three years during their lifetime ***(Exhibit 1)***. These averages mask enormous variations in the need for long-term care. While an estimated 31 percent of people currently turning 65 will not need any long-term care before they die, 20 percent will need care for more than five years. The expected present value of the remaining long-term care spending across all individuals turning age 65 is estimated to be $47,000. Under current law, Medicaid would cover about 46 percent of this cost; however, individuals and their families would need to cover another 45 percent.[1] This risk of personal spending is also not spread evenly – one half of people turning 65 will have no private personal spending, while more than five percent are projected to spend $100,000 or more of their own money (in present discounted value).

[1] Kemper, P., Komisar, H. and Alecxih, L., "Long-Term Care Over an Uncertain Future: What Can Current Retirees Expect?" Inquiry Journal, Volume 42, Winter 2005/2006.

Exhibit 1. Remaining Lifetime Use of LTC by People Turning 65 in 2005

Type of Care	Average Years of Care	Percent of People Using Type of Care
All LTC need	3.0	69
At home		
Informal care only	1.4	59
Formal care	0.5	42
Any care at home	1.9	65
In facilities		
Nursing facilities	0.8	35
Assisted living	0.3	13
Any care in facilities	1.1	37

Source: LTC financing model simulations. Excerpt from Table 2, Inquiry/Vol. 42, Winter 2005/2006

While the available data for not permit us to identify the level of need for elderly in Washington based on years of estimated years of care by type of service, estimated need and costs for Washingtonians by type of service is available (***Exhibit 2***).

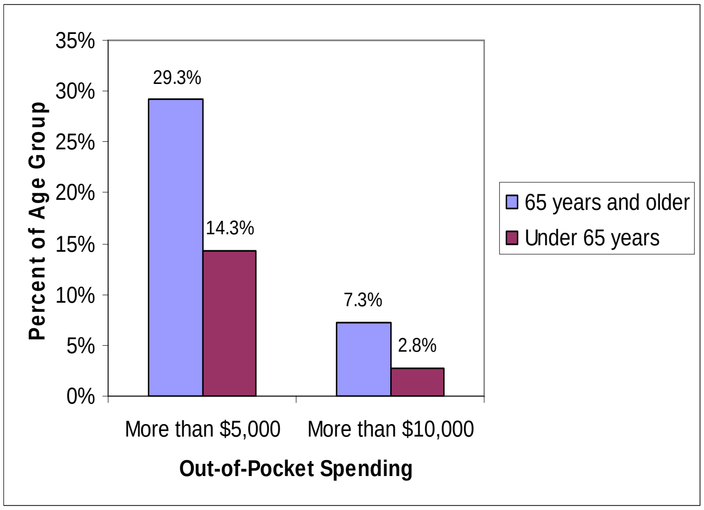
Exhibit 2: Estimated Washington LTC Setting Utilization and Cost

Type of Setting	Number of Residents (July 2005)	Estimated Average Cost per Year
Nursing home	12,051	$53,706
Residential	10,030	$16,524-$37,172
In-home	26,101	$14,400

Note: Includes nursing homes that are licensed and certified, licensed only, and hospitals with long-term care wings.
Source: Leitch, Kathy. Long Term Care – Presentation to the LTC Task Force, November 2005. ADSA Budget Office, August 2005.

Incidences of disability, increasingly aging population, as well as out-of-pocket costs for acute care and medications puts increasing pressure on the adequacy of personal assets and savings to finance LTC when needed. Nationally, non-institutionalized people 65 years and older have higher out-of-pocket costs, not including LTC, than non-elderly adults ***(Exhibit 3)***. A similar comparison of out-of-pocket spending in Washington is not readily available for this brief.

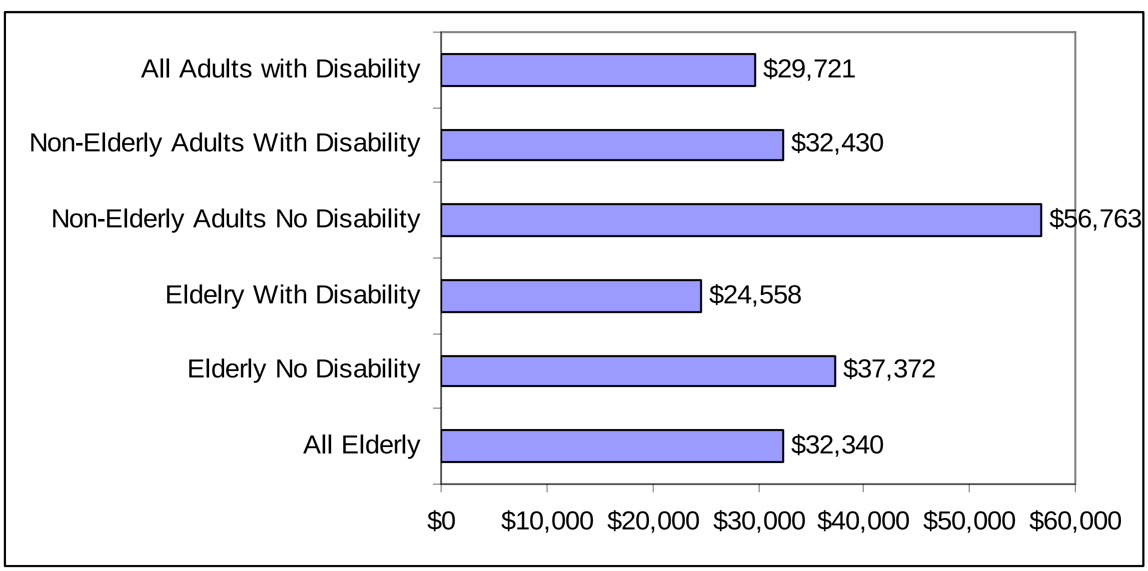
Exhibit 3. Out-of Pocket Health Care Expenditures Among the Elderly and Non-Elderly Population, 2003



Source: MEPS Statistical Briefs, #121 and 122, March 2006[2]

Income levels of those who may need LTC services provide an indication of their ability to contribute to the cost of care. ***Exhibit 4*** shows average household income levels and ***Exhibit 5*** shows the distribution of individuals by income as a percent of the poverty level for Washington's older adults and individuals with disabilities using data from the 2004 American Community Survey.

Exhibit 4. Comparison of 2004 Average Annual Income per Household for Elderly and Disabled Population in Washington, 2004

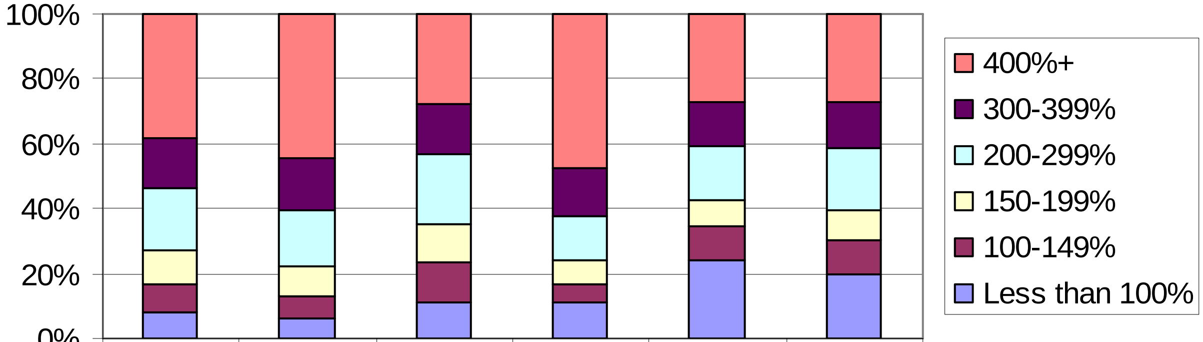


Source: American Community Survey, 2004.

[2] Banthin, J., PhD., Bernard, D., PhD., "Out-of-Pocket Expenditures on Health Care and Insurance Premiums among the Non-Elderly Population, 2003", MEPS Statistical Brief #121, March 2006.

Banthin, J., PhD., Bernard, D., PhD., "Out-of-Pocket Expenditures on Health Care and Insurance Premiums among the Elderly Population, 2003", MEPS Statistical Brief #122, March 2006.

Exhibit 5. Comparison of 2004 Distribution of Individuals by Family Income as a Percent of the Poverty Level in Washington, 2004

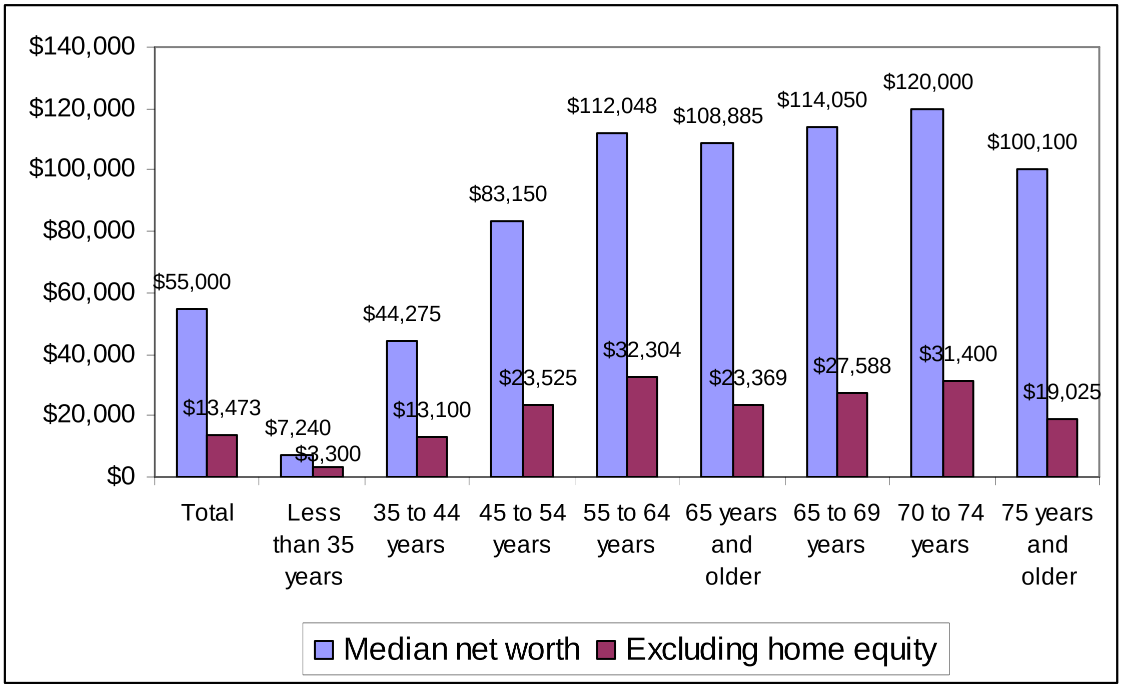


	All Elderly	Elderly No Disability	Eldelry With Disability	Non-Elderly Adults No Disability	Non-Elderly Adults With Disability	All Adults w ith Disability
400%+	38.1%	44.7%	27.7%	47.5%	27.3%	27.4%
300-399%	15.5%	15.5%	15.5%	14.9%	13.4%	14.1%
200-299%	19.2%	17.4%	21.9%	13.7%	17.0%	18.7%
150-199%	10.5%	9.6%	11.7%	7.1%	8.1%	9.3%
100-149%	8.9%	6.8%	12.2%	6.0%	10.1%	10.8%
Less than 100%	7.9%	5.9%	11.0%	10.9%	24.2%	19.7%

Source: American Community Survey, 2004.

Unfortunately, no dataset provides financial asset levels for residents of Washington. National data indicate that the vast majority of median net worth for households of all ages rests in their home equity (***Exhibit 6***). A more detailed examination of home equity as a source of financing using Washington specific data will be explored in a separate Background Brief.

Exhibit 5: Median Net Worth and Median Net Worth Excluding Home Equity of Households by Age of Householder, 2000



Source: Survey of Income and Program Participation.

A recent study examined how long elderly individuals living in the community who are at risk of going into a nursing facility will be able to finance their own care. While not all elderly would need care in a nursing facility, individuals who need this type of service or those who are at risk for nursing facility services is the largest group whose care is publicly financed. In the study, individuals at risk are defined as single individuals, 85 years or older who need assistance with Activities of Daily Living (ADL) or Instrumental ADLs, or have cognitive or mental problems. Only 16 percent had assets necessary to pay for one year of nursing facility care.[3]

Projections indicate that with increasing real wages, higher labor force participation among women, and more individuals with vested pensions than among today's elderly, the future elderly should have higher income and greater financial resources available on average. However, it is unlikely that these can keep pace with the increasing costs of health and long-term care.

Potential Options: Options than can tap the private financial resources of individuals to cover the expense of LTC include:

- Annuities that pay a lower amount when the annuitant is healthy and higher amounts when they meet a specified functional limitation; and

- Reverse mortgages and other mechanism to tap home equity.

[3] Lyons, B, et. al, "The Distribution of Assets in the Elderly Population Living in the Community," KCMU, June 2005. http://www.kff.org/medicaid/loader.cfm?url=commonspot/security/getfile.cfm&PageID=53591.